

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AGR-05 AID-05 CIAE-00 COME-00 EB-07

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AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

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E.O. 11652: N/A

TAGS: EGEN, PL

SUBJECT: POLISH PRICE INCREASES

REF WARSAW 5309 (NOTAL)

1. SUMMARY: CIGARETTE PRICES HAVE BEEN INCREASED SHARPLY AND PART OF THE PROCEEDS ARE TO BE USED TO HELP OFFSET INCREASED SUBSIDIES ON BASIC FOODSTUFFS. END SUMMARY.

2. THE POLISH GOVERNMENT HAS INCREASED THE PRICES OF ITS TOBACCO PURCHASES FROM FARMERS EFFECTIVE AUGUST 16, AND HAS IN TURN RAISED THE RETAIL PRICE OF CIGARETTES AND OTHER TOBACCO PRODUCTS. GROWERS WILL RECEIVE INCREASES AVERAGING 30 PERCENT FOR TOBACCO LEAVES AND 160 ZLOTYS PER KILOGRAM FOR TOBACCO SEEDS UNDER THE NEW PRICE SCHEDULE. THE HIGHER

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PRICES ARE INTENDED TO STIMULATE DOMESTIC PRODUCTION. PRICES

OF CIGARETTES WERE INCREASED AS FOLLOWS: SPORT, POLAND'S LARGEST SELLING BRAND, FROM 3.5 TO 6 ZLOTYS; KLUBOWE, 4.5 TO 7.5 ZLOTYS; GIEWONT, 6 TO 9 ZLOTYS; CARMEN, 18 TO 24 ZLOTYS; MARLBORO, 24 TO 28 ZLOTYS.

3. IN EXPLAINING ITS DECISION TO RAISE THE RETAIL PRICES OF TOBACCO PRODUCTS THE GOVERNMENT, IN A COMMUNIQUE AND A "JUSTIFICATION" APPEARING IN THE WEEKEND EDITIONS OF TRYBUNA LUDU AND ZYCIE WARSZAWY, MAINTAINED THE INCREASE WAS REQUIRED TO PARTIALLY OFFSET THE COST OF THE PRICE INCREASE GRANTED TOBACCO GROWERS AND THE AUGUST 11 INCREASES GIVEN PORK AND MILK PRODUCERS. THE TOTAL COST OF THESE PRICE REVISIONS IS OFFICIALLY PUT AT 11.2 BILLION ZLOTYS, OF WHICH 7.5 BILLION ZLOTYS IS EXPECTED TO BE RECOVERED FROM THE RETAIL PRICE RISE IN TOBACCO PRODUCTS.

4. IN DISCUSSING THE LATEST ROUND OF PRICE CHANGES THE "JUSTIFICATION" POINTEDLY NOTES THAT RETAIL MEAT AND MILE PRICES WERE NOT INCREASED, DESPITE THE SUBSTANTIAL COST (9.8 BILLION ZLOTYS PER YEAR) TO THE STATE OF INCREASING THE GOVERNMENT PURCHASE PRICE FOR THESE PRODUCTS. THE DECISION TO RAISE RETAIL CIGARETTE AND TOBACCO PRODUCT PRICES IS DESCRIBED AS THE "MOST SOCIALLY EQUITABLE" SOLUTION TO THE PROBLEM OF GENERATING REVENUE TO COVER THESE UNANTICIPATED COSTS.

5. COMMENT: THE POLISH CONSUMER, EVER SENSITIVE TO PRICE CHANGES, AND ALREADY CONCERNED THAT THE FREEZE ON BASIC FOOD PRICES MAY NOT BE RENEWED, WILL VIEW THE INCREASE IN CIGARETTE PRICES AS EVIDENCE THAT MORE PRICE RISES ARE TO COME. THESE SUSPICIONS ARE NO DOUBT HEIGHTENED BY THE EMPHASIS WHICH HAS BEEN PLACED ON THE COST OF THE AGRICULTURAL INCENTIVE PROGRAMS, AND ON THE NEED TO FIND A SOURCE OF FUNDS TO PAY FOR THEM.

6. SOME OBSERVERS HAVE BELIEVED A GENERAL ROJND OF PRICE INCREASES, INCLUDING BASIC FOOD ITEMS, MIGHT BE APPROVED DURING THE FALL PARTY CONGRESS AND IMPLEMENTED JANUARY 1, 1976. THE USE OF THE CIGARETTE PRICE INCREASE TO OFFSET SOME SUBSIDIES SUGGESTS THAT THE PRICE FREEZE ON BASIC FOOD-LIMITED OFFICIAL USE

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STUFFS MAY CONTINUE IN SOME FORM. WE ANTICIPATE THAT RATHER THAN RAISE BASIC FOOD PRICES, THE GOVERNMENT MAY RAISE OTHER NON-FROZEN PRICES IN ORDER TO: 1) GENERATE ADDED REVENUES TO COVER THE GROWING GAP BETWEEN PRICES PAID TO PRODUCERS OF MANY ITEMS AND THOSE RECEIVED FROM CONSUMERS, AND 2) TO REDUCE SOMEWHAT THE EXCESS LIQUIDITY IN PRIVATE HANDS WHICH PLACES SUCHHLPRESSURE ON THE LIMITED SUPPLIES OF MANY CONSUMER GOODS WITH BOTH FROZEN AND NON-FROZEN PRICES.

7. NEEDLESS TO SAY NO PRICE RISES WILL BE POPULAR WITH
POLISH CONSUMERS, BUT THE GOVERNMENT APPARENTLY FEELS THAT
RAISING THE FROZEN PRICES, WOULD BE MUCH MORE DANGEROUS

POLITICALLY THAN RAISING PRICES ON LESS ESSENTIAL ITEMS.
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